



November 30, 2003

MEMORANDUM

TO: USAID/Lebanon Director, Raouf N. Youssef

FROM: RIG/Cairo, Darryl T. Burris /s/

SUBJECT: Survey of USAID Assistance to Lebanon (Report No. 6-268-04-001-S)

This memorandum presents the results of our Survey of USAID Assistance to Lebanon. This is not an audit report and does not contain any recommendations for your action; however, it contains suggestions for your consideration. Management comments are included in their entirety in Appendix II.

I appreciate the cooperation and courtesy extended to our staff during the survey.

Background

USAID/Lebanon's County Development Strategy for 1997-2002 consisted of economic development, policy reform, governance, environmental, and landmine assistance activities. These program components intended to promote sustainable growth, stability, and security throughout Lebanon, a country recovering from 15 years of civil war.

The cornerstone of the strategy sought to revitalize and expand economic opportunities in Lebanon's most deprived and devastated rural areas through community-based, Non Government Organization-facilitated activities. The strategy included governance and capacity-building programs that support newly elected municipalities and civil society organizations. The municipalities were to be catalysts for activities such as community participation, sustainable environmental technologies, landmine awareness, and victims' assistance programs.

We conducted this survey to answer the following questions:

1. What are USAID's current and planned activities and funding levels for Lebanon?
2. Who are the U.S. and local implementers of USAID-financed activities for Lebanon?
3. What are the significant risk areas that should be covered in future audits?

Discussion

USAID/Lebanon focused on three strategic objectives:

- Reconstruction and Expanded Economic Opportunities.
- Increased Effectiveness of Selected Institutions Which Support Democracy.
- Improved Environmental Practices.

Assistance for these objectives since fiscal year 2000 is shown in the following table.

Table 1. Budget by Strategic Objectives.

SO	Strategic Objective	Millions of Dollars			
		FY00	FY01	FY02	FY03
1	Reconstruct/Expand Economic Opportunities	14.1	22.0	20.0	20.0
2	Increase Effect of Selected Institutions Supporting Democracy	1.0	3.6	7.0	7.0
5	Improve Environment Practices	-	-	5.0	5.0
	Other Support Services	0.6	1.3	3.6	3.5
	Totals	\$ 15.7	\$ 26.9	\$ 35.6	\$35.5

We assessed the risk associated with each of these strategic objectives. Our risk assessments are shown in Tables 2 through 4 on the following pages.

Table 2. Reconstruction and Expanded Economic Opportunity

Strategic Objective 1		Risk Exposure
Revitalize selected rural communities. (\$16,848,006)		High
Enhance small and micro-enterprises. (\$2,500,000)		Low
Improve economic policies. (\$1,900,000)		High
Improve dairy production. (\$1,000,000)		High
06/30/2002		
Obligations	Expenditures	Pipeline
\$22,248,006	\$14,785,317	\$7,462,689
Implementing Partners: Mercy Corps International, Creative Associates International Inc., Catholic Near East Welfare Association/Pontifical Mission, Cooperative Housing Foundation/Cooperative for Development, Young Men's Christian Association, American University in Beirut, Makhzoumi Foundation, Lebanese American University, and PricewaterhouseCoopers.		
Program Components and Risk Rating		
Revitalize selected rural communities: This activity works through Rural Community Development Clusters to implement community development projects in clusters of villages located in all regions of Lebanon. We assessed the risk as high because of the large dollar amount, government bureaucracy, religious, regional and political differences, and potential corruption in the procurement process.		
Enhance small and micro-enterprises: The small and micro-enterprise activity consists of three active credit programs implemented by three different Non-Government Organizations. We assessed the risk as low because the risk of non-repayment of loan is mitigated by having the members of a group responsible for payment.		
Improve economic policies: PricewaterhouseCoopers and The Services Group have worked with various ministries and the private sector to create awareness about the World Trade Organization (WTO) and determine the various laws, policies and regulations needed for WTO membership. USAID provides assistance to the Lebanese American University for developmental and outreach activities. Lebanese American University's Center for Sponsored Research and Development has initiated a program of outreach to the business community, which includes courses on quality management, and quality and international certification. We assessed the risk as high because of the slow pace of economic and administrative reform and the U.S. Government's withholding of funds.		
Improve dairy production: American University in Beirut's Faculty of Agriculture helps to revitalize the Lebanese dairy industry and small farmers. This activity supports a \$10 million U.S. Department of Agriculture (USDA) program to import pregnant Holstein dairy cows. We assessed the risk as high because the Government of Lebanon does not buy cows as required per the agreement with the USDA, and USAID paid for a quarantine facility not in use and provided training to farmers who might not receive cows.		

Table 3. Increased Effectiveness of Selected Institutions Which Support Democracy

Strategic Objective 2		Risk Exposure
Ministry of Municipal and Rural Affairs providing technical assistance and information to municipalities. (\$4,300,000)		High
Improved operation of key central agencies to support local government budgeting and administrative and financial management. (\$185,000)		Moderate
Parliament is informed on various policy options offered by qualified staff and able to oversee government budget. (\$400,000)		Moderate
Strengthening civil society participation in public life. (\$1,355,000)		Moderate
06/30/2002		
Obligations	Expenditures	Pipeline
\$6,240,000	\$4,737,747	\$1,502,253
Implementing Partners: State University of New York and AMIDEAST		
Program Components and Risk Rating		
<p>Ministry of Municipal and Rural Affairs (MOMRA) providing technical assistance and information to municipalities: Strengthen democratic practices and increase the efficiency, accountability and transparency of Lebanese government institutions. We assessed the risk exposure as high because the activity does not have the qualitative or quantitative means to measure the effectiveness of the technical assistance or the information provided to the municipalities.</p> <p>Improved operation of key central agencies to support local government budgeting, administrative and financial management: Coordinate budgetary improvements and enhance the methods of administrative actions. Due to the low dollar amount, we assessed the risk as moderate.</p> <p>Parliament is informed on various policy options offered by qualified staff and able to oversee government budget: To have professional staff analyses delivered to members of Parliament and Committees and members of Parliament use bill-drafting services and an automated budget system. Due to the low dollar amount, we assessed the risk as moderate.</p> <p>Strengthening civil society participation in public life : We assessed risk as moderate because of mitigating controls implemented by AMIDEAST, which included conducting background inquiries on applicants, using advisors to evaluate proposals, and working with the government of Lebanon to resolve problems/issues.</p>		

Table 4. Improved Environmental Practices

Strategic Objective 5		Risk Exposure
Number of villages known to change or initiate activities to improve or maintain the condition of water resources. (\$3,916,752)		High
Improved understanding of landmine prevention practices. (\$1,078,000)		High
06/30/2002		
Obligations	Expenditures	Pipeline
\$4,994,752	\$526,637	\$4,468,115
Implementing Partners: Young Men's Christian Association, Mercy Corps International and World Rehabilitation Fund.		
Program Components and Risk Rating		
<p>Number of villages known to change or initiate activities to improve or maintain the condition of water resources: Increase the number of villages known to change or initiate activities to improve or maintain the condition of water resources. Due to the large dollar amount, we assessed the risk as high.</p> <p>Improved understanding of landmine prevention practices: We assessed the risk as high because of political instability, which led the Department of State to curtailing funding at the time of this survey.</p>		

Conclusion

We suggest that USAID/Lebanon (1) formalize a system to regularly assess the risks it faces in implementing program components and (2) develop an annual audit plan based on the risk assessment.

In developing the first audit plan, we suggest that the Mission consider the following high risk program components:

1. Revitalize selected rural communities
2. Improve economic policies
3. Improve dairy production
4. Ministry of Municipal and Rural Affairs providing technical assistance and information to municipalities
5. Number of villages known to change or initiate activities to improve or maintain the condition of water resources
6. Improved understanding of landmine prevention practices

**Management
Comments and
Our Evaluation**

In response to our draft report, USAID/Lebanon agreed with our first suggestion about formalizing a system to assess risk, and the Mission requested clarification on the second suggestion. Appendix II presents the Mission's response in its entirety.

USAID/Lebanon said that it was developing a Performance Monitoring Plan for its new strategy (2003-2005), and that it planned to submit a copy to RIG/Cairo upon completion. Based on this plan, the Mission planned to evaluate the program and assess risk annually. We concur with this plan.

With respect to our second suggestion, USAID/Lebanon requested clarification. The Mission mentioned that it was submitting an annual audit universe annually, and that the Mission's Performance Monitoring Plan would determine risk and the need for audit. The Mission added that our survey focused on a development strategy that concluded on September 30, 2002, and that a new strategy had changed most of the results framework.

According to USAID Automated Directives System Section 591.2c: "The Mission Audit Management Officer (AMO) is responsible for developing and maintaining the Mission's audit inventory, and coordinating with the Regional Inspector General (RIG), Management Action Official, and other Mission officials to develop the Mission's Annual Audit Plan."

We concur with the Mission's plan to assess the need for audit through the Mission's Performance Monitoring Plan and to submit an audit universe to RIG/Cairo annually. These two items provide a means to develop the annual audit plan called for by the Automated Directive System. We will provide USAID/Lebanon an example of an annual audit plan prepared by a different USAID mission.

**Scope and
Methodology****Scope**

Regional Inspector General/Cairo's risk assessment of USAID/Lebanon's strategic objectives considered all major program components that were active as of June 30, 2002. Risk assessment fieldwork was conducted at the USAID office in Beirut, Lebanon from September 23 to October 3, 2002. This risk assessment was not an audit.

Methodology

We interviewed officials and reviewed documentation on the strategic objectives' program components of USAID/Lebanon. These discussions and documents covered background, organization, management, budget, staffing responsibilities, prior reviews, internal controls, and vulnerabilities to gain an understanding of the actual and potential problems in implementing program components.

We assessed risk exposure for all program components in each of USAID/Lebanon's strategic objectives, e.g., the likelihood of significant abuse, illegal acts, misuse of resources, failure to achieve program objectives, and noncompliance with regulations and management policies. We assessed overall risk as high, moderate, or low. A higher risk exposure simply indicates that the particular function was more vulnerable to its program objectives not being achieved or irregularities occurring. We considered the following key areas in assessing risk:

1. Significance and sensitivity.
2. Susceptibility of failure to attain program goals, noncompliance with regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources.
3. Management actions to mitigate the implementation risks identified by strategic objective teams.
4. Competence and adequacy of number of personnel.

Our risk assessments of USAID/Lebanon's strategic objectives have the following limitations in their application. First, we assessed risk at the program component level, not at the strategic objective level. Second, we assessed risk only. Our risk assessments were not sufficient to make determinations of the effectiveness of internal controls for major functions. Generally, we did not determine (a) the adequacy of internal control design, (b) if controls were properly implemented and (c) if transactions were properly documented. Third, risk exposure assessments, in isolation, are not an indicator of management capability due to the fact that risk assessments consider both internal and external factors, some being outside the span of control of management.

Management Comments

Briefing Memorandum

To: RIG/Cairo, Darryl T. Burris

From: Director, Raouf Youssef

Date: October 24, 2003

Subject: Draft Survey of USAID/Assistance to Lebanon, dated September 24, 2003

USAID/Lebanon has reviewed the subject Survey Report on USAID-Financed Assistance to Lebanon and concurs with one of the suggestions made. The Survey Report contained two suggestions and no recommendation.

The purpose of this memo is to provide a USAID/Lebanon Management comments on the Report's suggestions. The Missions actions with regard to the specific suggestions follow:

Draft Survey Findings:

The report suggests that USAID/Lebanon (1) formalize a system to regularly assess the risks it faces in implementing program components and (2) develop an annual audit plan based on the risk assessment.

In developing the first audit plan, it was suggested that the Mission consider the following high risk program components:

1. Revitalize selected rural communities
2. Improve economic policies
3. Improve dairy production
4. Ministry of Municipal and Rural Affairs providing technical assistance and information to municipalities
5. Number of villages known to change or initiate activities to improve or maintain the condition of water resources

Mission Response:

(1) We concur with the Survey suggestion that USAID/Lebanon “ formalize a system to regularly assess the risks it faces in implementing program components”. USAID/Lebanon is in the process of developing the Performance Monitoring Plan for its new strategy (2003-2005). A copy will be submitted to the RIG Office upon completion. Measurable performance indicators are being developed and data collection is being specified. Annually, based on the Performance Monitoring Plan, the program will be evaluated by each SO and risk will be addressed. Site visits and review of quarterly progress reports, submitted by fund recipients to the Mission, are other means used to regularly assess the risks faced in implementing the program components.

(2) It is unclear to USAID/Lebanon what RIG is suggesting “develop an annual audit plan based on the risk assessment”. To that effect, further clarification is appreciated. An annual audit universe is being submitted regularly to RIG and the FMFIA review is being conducted. To our understanding the annual review of the Missions’ Performance Monitoring Plan will determine the risk and the need for audit.

We would like to point out that the subject draft survey conducted focused on the indicators used to evaluate USAID/Lebanon old strategy (1997-2002), which was concluded by September 30, 2002. Under the new strategy (2003-2005) most of the Results Framework were changed.

Further elaboration or suggestion is highly appreciated.